

Economic Relations with the Soviet Union and Eastern Europe

April 6, 1982

Draft report discussed:

"TRADING WITH THE SOVIET BLOC: Economic Relations between the Trilateral Countries and the Soviet Union and Eastern Europe"

Jointly prepared by:

North American Author: Robert V. Roosa (Brown Brothers Harriman; former Under-Secretary of the Treasury)

European Author: Armin Gutowski (Hamburg Institute for Economic Research; former member of German Council of Economic Advisors)

Japanese Author: Michiya Matsukawa (Nikko Securities; former Japanese Vice-Minister of Finance for International Affairs)

North America, Western Europe and Japan have a variety of economic involvements with the Soviet Union and Eastern Europe; and we have not done a very good job of developing and sustaining a common framework to guide these economic relations with our principal political adversary. The authors of this paper set about trying to develop a more common framework of restraints, and also "to identify some kinds of constructive East-West economic relations that may develop whenever the tensions and strains of early 1982 subside."

Continuing CoCom Restraints

Strengthened CoCom restraints are a key part of the framework of restraints. The authors recommend a firmer legal status for CoCom, concentration on very critical items, and an upgrading of staff and political supervision.

"Great strength would be imparted to the effort if the participating countries could endow it with a firm legal status by establishing a formal organization, preferably through international treaties. If that were combined with an operating emphasis on selecting a very small set of very critical items, rather than risking avoidance or loss of credibility by casting a wider dragnet, the CoCom approach could provide, outside its boundaries, the indication of a more meaningful guideline for the channeling of "legitimate" economic relations than anything thus far developed. In this sense, to maintain an effective CoCom procedure, year in and year out, should be a primary objective of the Trilateral countries.... A permanent, technically competent staff should work under periodic review by senior government officials."

These recommendations were not challenged in the discussion.

Use of Sanctions

The Trilateral team of authors does not evaluate highly recent sanctions efforts against the Soviet Union. They speak, for instance, of "the spontaneous and precipitate confusion which has characterized headlong rushes into sanctions by the United States, which its allies have been unable fully

to support -- and which became rather futile without widespread participation." By no means do the authors want to remove sanctions from the Western arsenal, but they do call for more careful application based on a much firmer foundation of allied consultation and coordination.

"Perhaps as an extension of a more formal organization created to strengthen the CoCom proscriptions, and taking an example from the International Energy Agency, the participating countries could agree on the kinds of thresholds at which some consultation and action would be triggered, and on the arrangements that might then be appropriate for burden sharing among the participants when sanctions become costly. It is worth pondering whether the ability of the West simply to reach an agreement on a framework for the use of sanctions might not, by its very existence, become a powerful force for impelling negotiations in crisis periods, thereby averting a triggering of the actual use of sanctions."

Some of the authors' conclusions on sanctions were challenged in discussion. Several participants evaluated more highly U.S.-led sanctions against the Soviet Union after the invasion of Afghanistan. (If the U.S. response had been limited to diplomatic representations and United Nations resolutions would not the chorus of criticism of the U.S. response, particularly in Europe, have been even louder?) They argued that a prescription to seek near unanimity on sanctions is a prescription for doing nothing.

No Concessional Terms

An important restraint of another sort, stressed by the authors throughout their paper for economic as much as political reasons, is that there be no concessional terms in economic relations with the Soviet Union and most of Eastern Europe. This restraint has not been observed consistently by various Trilateral parties, through a "competition in laxity" on credit terms, through various subsidies for Trilateral exports, through not-always-sound compensatory trading arrangements. The thrust of the report here was not challenged in discussion, except perhaps for one European who noted that there is great pressure on some Western European firms to accept rather disadvantageous terms since the alternative is to close plants.

Keeping Vulnerability within Prudent Limits

The Trilateral team has concluded, after detailed analysis, that "with the possible exception of energy imports from the U.S.S.R. by some Western European countries, there is as yet no critical dependence of any of the Western countries either on the export markets or the products of the East." The conclusion is rather striking to American eyes that "in 1979, of all sectors of East-West trade, the U.S. dependence on the Soviet market for agricultural sales constituted the most significant example of export dependence."

The Trilateral team is fairly relaxed about the new gas pipeline from the Soviet Union to Western Europe, given the various back-up possibilities available to Western Europe and the stake the Soviets will have in a smoothly functioning project. Some speakers from the floor, including a few Europeans, were much less relaxed about the vulnerability associated with the pipeline.

Shaping Soviet Development

A number of speakers from the floor argued that economic relations needed to be imbedded more firmly in a political strategy for shaping Soviet development. They tended to emphasize the deterioration of the Soviet economic system and its lopsided concentration of resources on armaments, and argue that active economic relations with the Trilateral countries, in effect, helped the Soviets continue to concentrate on armaments and sustain a stagnating economy. The Trilateral team of authors was skeptical of such views, and of the capacity of the Trilateral countries to carry out such a broad-gauge strategy. The authors argue that the Soviet bloc is too large and self-sufficient to depend so strikingly on economic relations with Trilateral countries. They argue that the Soviets will meet their military requirements first in any case, whether or not there is active trade with the West. Moreover, "the West can hope that mutually beneficial trade relations, as and if they develop, will help provide an atmosphere conducive to constructive negotiations" on more sensitive political-security issues.